LASERS
Louisiana State Employees' Retirement System

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Sustainability of the LASERS pension system:

- On the current path, the state will actually see a substantial reduction in the unfunded accrued liability (UAL) in 10 years with a further reduction in 20 years. The assertion that, under current law, the UAL could be expected to grow by $3 billion in 10 years is false.

- Rather than continuing to increase, with the 2010 revision in the UAL payment schedule, the state will now begin paying down the principal on the debt owed to the system.

- The administration's proposal is not a comprehensive approach to tackling state debt. LASERS portion of the UAL is 35 percent. With respect to LASERS, the administration's proposals target only the LASERS rank-and-file members, all the while insisting that these proposals would effectively deal with the larger debt.

- When looking at the unfunded accrued liability, you see that, in reality, it covers four state systems, some of which include specialty plans with much higher benefit levels than that earned and paid for in large measure by the rank-and-file members.

- LASERS receives annual funding based on actuarial projections to maintain soundness. Louisiana took an important step in 1987 by constitutionally requiring the financial soundness of the state pension systems. A recent Pew report pointed out that Louisiana is, in fact, one of the top ten states for paying the actuarially required rate.

- The UAL is the debt owed on the existing retirement plan and was created over decades. The initial UAL is constitutionally required to be paid by the year 2029. Those payments are due regardless of the type of plan implemented for new hires.

- The proposals are being touted as measures to attain and maintain the actuarial soundness of the pension systems. Yet funds that would be raised, for example the increase in employee contributions, are not being used to reduce pension debt, but are instead being funneled into the state general fund. (Once again rendering those increases taxes).

- Proposing changes that are unconstitutional attains only protracted litigation, not actuarial soundness.

- LASERS has recommended a change in the actuarial cost method, which will result in a $41 million annual reduction in employer contributions that could then be applied to the debt. (SB 13 would make the entry age normal change, and SB 54 would make the change, and apply the result of the change to the UAL. Both bills are by Senator E. Guillory.) Any additional funds that are applied to the debt, such as surplus funds, would further reduce the problem.

Keeping Promises:

- Saying that promises are being kept, and keeping promises, are two different things.

- It is not just the glaring inequity that must be focused on, but also the undue harshness of the proposals. (See attached scenarios).

- The LASERS members targeted (approximately 40,000 individuals) are those who are least able to speak up in opposition.

- It is misleading to compare the proposals to changes in corporate plans. A better comparison would be to changes in Social Security (also a defined benefit plan). LASERS members do not have corporate plans nor do they have Social Security. They have only their LASERS defined benefit plan. When Social Security has implemented age eligibility changes, it has done so slowly and incrementally.

- The administration is proposing changes that could push eligibility back over a decade for members, with no transition.

- The proposal seeks to change the retirement age to 67 and change the method of calculating benefits for existing employees.

- Many of those employees already have “vested” rights in their retirement benefits. To change provisions, such as those targeted, would violate the constitutional restriction against impairing existing benefits.

- Employees who are not yet vested have contractual rights to their benefits. The Louisiana Constitution provides that membership in the retirement system is a contractual relationship between the employee and the employer.

- More basically, the retirement benefits of current employees are part of the package of compensation they were promised when hired; any change to that package is breaking the promise made to those employees.

- LASERS recognizes that the Louisiana Constitution specifically protects accrued benefits from being diminished or impaired as well as the contractual nature of the relationship between the state and its employees as it pertains to membership in the retirement system. We also recognize the federal constitution's prohibition against the impairment of contractual obligations and the passage of ex post facto laws.

Redesigning and modernizing the pension plan for new hires:

- A cash-balance plan is a defined benefit plan. It typically includes elements of traditional pensions and individual accounts in a single plan.

- As such, it can be a viable plan for new hires if it promotes retirement security by containing the core retirement plan elements: mandatory participation, shared financing between employers and employees, pooled assets invested by professionals, a benefit that cannot be outlived, and survivor and disability protections.

- Keep in mind, unlike Social Security, LASERS is not a pay-as-you-go system. The employee contributions are used to pay the largest share of the benefit currently being earned by the active employees. (This is the normal cost). The employee pays approximately 54 percent of the cost of the currently accruing benefit. The employer pays approximately 46 percent. The additional amount that the employer pays to the pension system is for the debt payment. The employer contribution rate calculated to pay the existing debt is calculated as a percentage of payroll. If the salaries of new employees were not included in that calculation, then the employer contribution rate would be higher on a smaller pool of payroll.